



GEST-S-6002

Module “Finance for microfinance”

Course: Banking and Microfinance and Exercises

1st semester EMP 2021-22

Module manager: Prof. Annabel VANROOSE

Planning

Date	Time	Lecturer	Guest speaker	Place
06/10/2021	6 pm – 9 pm	Prof. L. Weill		R.42.4.110
07/10/2021	6 pm – 9 pm	Prof. L. Weill		R.42.4.110
08/10/2021	6 pm – 9 pm	Prof. L. Weill		R.42.4.110
09/10/2021	9 am – 12 pm	Prof. L. Weill		R.42.4.110
18/10/2021	6 pm – 9 pm		P. Goodman & N. Octave	R.42.4.110
03/11/2021	6 pm – 9 pm		N. Renier	R.42.4.110
16/11/2021	6 pm – 9 pm	Prof. A. Vanroose		R.42.4.110
23/11/2021	6 pm – 9 pm	Prof. A. Vanroose		R.42.4.110
07/12/2021	6 pm – 9 pm	Prof. A. Vanroose		R.42.4.110

Part 1: Prof. Annabel VANROOSE

Objectives of the session

- Obtain insights in differences and interrelationships between banks and MFIs
- Understand performance of MFIs in their macro-economic context
- Understand competition in the microfinance sector
- Go deeper into the regional distribution of banks and MFIs
- Expansion strategies of MFIs and banks and link with access to financial services

Topics covered and recommended readings

1) **Banking and microfinance: institutions, interrelationships and competition (Sessions 1 and 2)**

- Access to financial services
- Correlation between traditional financial sector development and the microfinance sector
- MFI performance and their macro-economic context
- Relationships between banks and MFIs
 - Competition
 - Cooperation and linkages
- Competition between MFIs

References:

- Ahlin, C., J. Lin and M. Miao (2011), "Where does Microfinance Flourish? Microfinance Institution Performance in Macroeconomic Context," *Journal of Development Economics* 95(2): 105-120.
- Assefa, E., N. Hermes and A. Meesters (2012), "Competition and Microfinance," Available at SSRN: <http://ssrn.com/abstract=2029568>.
- Claessens, S. (2009), Competition in the Financial Sector: Overview of Competition Policies, *IMF Working Paper*, 09/45, The International Monetary Fund, Washington D.C.
- Cull, R., A. Demirgüç-Kunt and J. Morduch (2009), "Microfinance Meets the Market," *Journal of Economic Perspectives* 23(1): 167-192.
- Demirguc-Kunt, A., T. Beck and P. Honohan (2008), *Finance for All? Policies and Pitfalls in Expanding Access*, World Bank Policy Research Report, World Bank, Washington DC.
- Vanroose, A. and B. D'Espallier (2013), "Do Microfinance Institutions Accomplish their Mission? Evidence from the Relationship Between

Traditional Financial Sector Development and MFIs' Performance and Outreach," *Applied Economics* 45(15): 1965-1982.

2) Microfinance expansion strategies and access to financial services (Session 3)

- Location and access to financial services
- Expansion strategies of MFIs and their logics
- Cases: Peru, India

References:

- Bebbington, A. (2004), "NGOs and Uneven Development: Geographies of Development Intervention," *Progress in Human Geography* 28(6): 725 – 745.
- Fouillet, C. (2009), *La Construction Spatiale de la Microfinance en Inde*, Doctoral Thesis, Université Libre de Bruxelles, Brussels.
- Fruttero, A. and V. Gauri (2005), "The Strategic Choices of NGOs: Location Decisions in Rural Bangladesh," *The Journal Of Development Studies* 41(5): 759-787.
- Vanroose, A. (2015), "Which Local Factors Drive the Regional Expansion of Microfinance Institutions? Evidence from Peru?" *Journal of International Development*, DOI: 10.1002/jid.3082

Part 2: Prof. Laurent WEILL

Objectives of the course

- Explain the fundamentals of the lending activity
- Present the fundamentals of Islamic finance
- Explain how Islamic microfinance works

Topics covered and recommended readings

1) Introduction: why we need financial institutions

2) Information asymmetries

- Presentation
 - Adverse selection and signalling
 - Moral hazard
- Consequences
 - Credit rationing
 - The role of the long-term relationships in credit activity

3) How to solve information asymmetries

- The role of collateral
 - What is collateral?
 - The three reasons for the use of collateral
- The role of capital
- The role of character

4) Islamic Finance

- Principles
 - A finance without interest
 - Another paradigm
- Instruments
 - Financing instruments
 - Deposit instruments
- Practice and Criticisms
 - Practice : figures and reality
 - Criticisms

5) The economic impact of Islamic finance

- Potential benefits
 - The effect on financial inclusion
 - The effect on financial development
- Potential costs

6) Islamic Microfinance

- Empirical Instruments
 - The mudaraba model
 - The murabaha model
- Illustrations

References:

- Berk, J. and P. De Marzo (2019), *Corporate Finance*, 5th ed., Boston: Pearson.
- El-Gamal, M. (2008), *Islamic Finance: Law, Economics and Practice*, Cambridge: Cambridge University Press.
- Greenbaum, S., A. Thakor and A. Boot (2019), *Contemporary Financial Intermediation*, 3rd ed., Academic Press.
- Iqbal, Z., A. Mirakhor and M.S. Ebrahim (2008), “An Introduction to Islamic Finance,” *Review of Islamic economics* 12(1): 169-172.
- Ross, S., R. Westerfield and J. Jaffe (2013), *Corporate Finance*, 10th ed., Boston: Irwin/McGraw-Hill.

Part 3: Noémie RENIER, Patrick GOODMAN and Nawel OCTAVE

Noémie Renier:

Objectives of the sessions

- Understand the role of Microfinance Investment Vehicles (MIVs) in the financial inclusion market
- Get operational and strategic insights on the functioning of MIVs (fund development, fund management and risk management)
- Understand the investment process of MIVs and integration of ESG/impact mission within the investment process
- Walk through key sector initiatives witnessing how strong cooperation between socially oriented funds have contributed to greater impact

Topics covered and recommended readings

1) Financial Inclusion Market Trends

- Microfinance within the Impact Industry
- The Role of Microfinance Investment Vehicles

2) Fund Development and Management

- AIFM and regulatory considerations
- Fund raising
- Investment process
- Risk Management
- Technical Assistance

3) Investment Process

- From origination to monitoring
- Due Diligence
- Double bottom line assessment

4) Key sector initiatives

- Social Performance TaskForce – Social Investor Working Group
- Coordination between MIVs (MoU)

References:

- Memorandum of Understanding on "Coordination among MIVs in response to Covid 19", <https://www.covid-finclusion.org/investors>
- SPTF Social Investor Working Group (SIWG) website, <https://sptf.info/working-groups/investors>
- MFR (2021), Institutional rating methodology, MFR website
- Symbiotics (2020), "2020 Symbiotics Microfinance Investment Vehicles (MIV), Survey", Symbiotics, Geneva.
- Sam Mendelson (2020), "The Covid-19 Financial Inclusion Compass" European Microfinance Platform
- Convergences (2019), Microfinance Barometer 2019
- World Bank (2017), The Global Findex Database 2017 (World Bank, 2011-2017)
- CGAP (2020), "Toward a Shared Learning Agenda for Financial Inclusion,"
- GIIN (2020), Understanding Impact Performance: Financial Inclusion Investments

Patrick Goodman and Nawel Octave:

Objectives of the session

- Identify appropriate funding instruments for MFIs
- Status of the development of the MIV market

Topics covered and recommended readings

1) Funding instruments for MFIs

- Characteristics and prerequisites for different instruments
- Donation
- Savings
- Loans (local, international, concessional, commercial)
- Guarantees
- Hard versus Local currency
- Bond issuing
- Securitisation
- Equity Raising
- Exercise on 3 different MFIs with different environment

2) Microfinance Investment Vehicles

- Definition of an MIV
- Structure of an MIV
- Evolution of MIVs

- MIV Survey
- Case study
- Trends
- Conclusion

References:

- Symbiotics (2020), “2020 Symbiotics Microfinance Investment Vehicles (MIV), Survey”, Symbiotics, Geneva.
- Sam Mendelson, (2020), “The Covid-19 Financial Inclusion Compass” European Microfinance Platform
- Symbiotics (2017), “Going unhedged in Frontier Markets”, Symbiotics, Geneva
- CGAP (2020), “Pulse Survey of Microfinance Institution – Covid-19”, CGAP, Washington, D.C.
- Symbiotics (2018), “White Paper: Banking for Impact”, Symbiotics, Geneva
- Coleman, A.K. (2007), “The Impact of Capital Structure on performance of microfinance institutions”, Journal of Risk Finance
- Innocent Bayai and Sylvanus Ikhide (2016), “Financing and financial sustainability of microfinance institutions (MFIs): a conceptual view”, Banks and Bank Systems
- Hallway, R., Hoque, M. & Chisty, M. (2011), “Commercialisation and Changes in Capital Structure in Microfinance Institutions: An Innovation or a Wrong Turn?”, Managerial Finance
- CGAP, (2010) “Microfinance Investment Vehicles Disclosure Guideline”, CGAP, Washington, D.C.
- Latortue, A., E. Littlefield, H. Siedek and K. McKee (2006), “Managing the Floodgates - Making the Most of International Flows of Microfinance Funding,” CGAP, Washington, D.C.
- CGAP (2007), “The true cost of deposit mobilization,” CGAP, Washington, D.C.
- IADB (2006), “How Should Microfinance Institutions Best Fund Themselves?” IADB, Washington, D.C.
- USAID (2005), “MFI Financing Strategies and the Transition to Private Capital,” USAID, Washington, D.C.
- WWB (2008), “Capital Markets Guide for Microfinance Institutions (MFIs),” New York.
- SEEP Network (2005), “Measuring the Performance of Microfinance Institutions: A Framework for Reporting, Analysis and Monitoring,” Washington, D.C.

All parts

Evaluation

Written exam